DOMINION FOUNDRIES AND STEEL, LIMITED

ANNUAL REPORT 1967

DOFASCO

The Annual General Meeting of Shareholders will be held at the offices of the Company in Hamilton, Ontario, on Friday, April 26, 1968 at 12:00 o'clock noon.

ANNUAL REPORT — 1967

DOMINION FOUNDRIES AND STEEL, LIMITED

HAMILTON, ONTARIO

FOR THE YEAR ENDED DECEMBER 31, 1967

HIGHLIGHTS

	1967	1966
Production of ingots and castings — net tons	1,879	1,877
Sales	$ 265,083	$ 271,086
Net income	$ 24,566	$ 24,557
Net income per common share*	$ 1.52	$ 1.52
Dividends declared — per common share*	$ 0.60	$ 0.60
— per preferred share*	$ 4.75	$ 4.75
Working capital	$ 79,337	$ 69,949
Capital expenditures — plant	$ 22,748	$ 56,906
Investment in ore properties	$ 22,421	$ 24,772
Depreciation	$ 20,465	$ 17,504
Average number of employees*	8,100	8,445
Number of common shareholders*	19,696	19,805

* *Figures are in thousands except where indicated.*

HONORARY DIRECTORS

FREDERICK W. SHERMAN	Loudonville, N.Y.
ARTHUR G. WRIGHT	Hamilton, Ontario

DIRECTORS

HARRY N. BAWDEN	Director, Dominion Securities Corporation Limited, Toronto
GEORGE H. BLUMENAUER	Chairman and President, Otis Elevator Company Limited, Hamilton
R. ROSS CRAIG	Executive Vice President — Commercial
DANIEL F. HASSEL	Vice President — Industrial Relations
WILLIAM C. HASSEL	Vice President — Works Manager
JOHN D. LEITCH	Chairman, Maple Leaf Mills Limited, Toronto
JAMES L. LEWTAS, Q.C.	Partner, Campbell, Godfrey & Lewtas, Toronto
BRUCE A. NORRIS	President and Treasurer, Norris Grain Company, Chicago
THOMAS F. RAHILLY	Honorary Chairman, Canada Iron Foundries, Limited, Toronto
W. HAROLD REA	Chairman, Great Canadian Oil Sands Limited, Toronto
JOHN G. SHEPPARD	Executive Vice President — Financial and Secretary
FRANK H. SHERMAN	President and Chief Executive Officer

EXECUTIVE OFFICERS

FRANK H. SHERMAN	President and Chief Executive Officer
R. ROSS CRAIG	Executive Vice President — Commercial
JOHN G. SHEPPARD	Executive Vice President — Financial and Secretary
DANIEL F. HASSEL	Vice President — Industrial Relations
DAVID O. DAVIS	Vice President — Engineering
DAVID A. LINDSEY	Vice President — Purchasing
WILLIAM C. HASSEL	Vice President — Works Manager
W. RUSSELL WEIR	Vice President — Product Quality
F. JOHN McMULKIN	Vice President — Research
JACK PLUMPTON	Comptroller
THOMAS VAN ZUIDEN	Treasurer
ALAN D. LAING	Assistant Comptroller
DOROTHY M. CAULEY	Assistant Secretary

TRANSFER AGENTS AND REGISTRARS

National Trust Company, Limited — Toronto, Montreal, Vancouver, Winnipeg, Calgary
Canada Permanent Trust Company — Halifax
The Bank of Nova Scotia Trust Company — New York

DIRECTORS' REPORT

To the Shareholders and Employees:

Your directors are pleased to present the Company's Annual Report including consolidated financial statements for the year ended December 31, 1967.

SUMMARIES

Certain operating data for the past two years are shown on page 3. On pages 18 and 19 you will find a ten-year summary of statistics. The formal financial statements and auditors' report appear on pages 10 to 17.

OPERATIONS — RESULTS SUBSTANTIALLY UNCHANGED FROM 1966

Production of 1,879,280 net tons of steel ingots and castings was about the same as in 1966.

While consolidated sales were slightly lower than in the previous year, steel mill products showed an increase of about 3½%. Higher sales of hot rolled products, principally for automotive uses, and semi-finished steel, were the significant changes for the year. Demand for railway rolling stock declined during 1967 and as a result, shipments from National Steel Car were considerably lower. For the same reason, Dofasco's foundry business was reduced from the peak level reached in 1966, since railway specialties comprise a substantial part of foundry products.

Costs of wages and of services were higher in 1967 and, while prices were raised early in the year, these adjustments were modest and helped to offset only a portion of the increased costs.

Interest on long-term debt again shows a significant increase over the previous year due to new financing. Depreciation charges were higher because of the completion of major manufacturing facilities.

Factors outlined in the preceding paragraphs have had the effect of reducing the margin of profit before taxes. Net income, however, has been maintained at the 1966 level of $1.52 per common share as a result of the exemption from tax on income arising from the use of iron ore pellets from Wabush Mines. Income from this source qualifies for tax exemption for the three-year period April 1, 1966 to March 31, 1969. Similar benefits will accrue from use of product from Sherman Mine.

The trend to higher costs and lower profit margins has stimulated renewed effort to maintain a constant review and control of all operating and administrative costs. A vigorous campaign of cost control is in progress throughout the Company.

FINANCIAL POSITION — ADDITIONAL LONG-TERM FINANCING

Changes in the working capital position are set out in the Consolidated Statement of Source and Application of Funds appearing on page 13.

On May 15, 1967, the Company issued $35,000,000 principal amount of 6½% Sinking Fund Debentures. The net proceeds were applied in part to eliminate the current bank indebtedness then existing and to reduce the revolving bank credit which at that time amounted to $35,000,000 U.S. funds.

Debentures in the principal amount of $2,945,000 and 6,600 of the Company's 4¾% preferred shares were purchased for cancellation during the year.

Under the stock option plan for certain officers and staff, 38,579 common shares were issued for an aggregate consideration of $694,692.

Working capital increased by $9,388,000 and amounted to $79,337,000 at December 31, 1967. The ratio of current assets to current liabilities was at the good level of 3.9 to 1.

DIVIDENDS

Dividends of \$4.75 per share on the 4¾% preferred shares and 60c per share on the common shares were declared during 1967. Shareholders were advised by special notice on February 7, 1968 that dividends declared in 1967 would qualify for a depletion allowance of 20%.

CAPITAL EXPENDITURES — REDUCED IN 1967

Expenditures for manufacturing facilities and iron ore projects amounted to \$45,200,000 in 1967 — divided about 50% to each category. In 1966, expenditures were \$81,700,000 and included a greater number of major manufacturing installations all of which are now operating.

MANUFACTURING FACILITIES

The larger units completed in 1967 were a battery of 53 coke ovens, the fourth oxygen plant (400 tons per day capacity), an automatic scarfing machine in the hot mill to improve quality, and the 5-stand cold reduction mill. As we indicated earlier, some of these installations provide in part for future requirements. Construction of the third galvanizing line was delayed by a prolonged strike of contractors' work forces but is now nearing completion. This unit will provide additional capacity for galvanized steel and will enable us to take advantage of future increased activity in various segments of the construction industry. Siding and roofing, culverts, guard rail, heating and air conditioning installations are examples of the uses of this product.

The Company recently concluded negotiations for the purchase of a 200 acre tract of land in Saltfleet Township, fronting on the Queen Elizabeth Way east of the City of Hamilton limits. This purchase forms part of the Company's long range plans for future expansion.

We made reference in last year's report to our pollution control plans. During 1967 good progress was made in our continuing program to control air and water pollution. Installations costing approximately \$5,000,000 were completed and put into operation. These include plants for the biological removal of phenol, the removal and recovery of ammonium sulphate and the extraction of sulphur from our coke oven gas by the Stretford process. Extensive improvements to our fume and dust collection system at the oxygen furnace shop and a liquid system for recovering these oxide fines have also been completed. Two oil recovery systems have been installed in conjunction with our cold rolling operations. Although some materials are collected through our pollution control program, their value is only a fraction of the cost of recovery.

RAW MATERIALS

Construction work at the Sherman Mine near Temagami in northern Ontario — in which Dofasco is a 90% owner — is virtually complete. Production is scheduled to commence about the time you receive this report. Present indications are that this mine will have a life of at least 25 years — at the proposed rate of production of 1,000,000 tons of iron ore pellets annually.

Before January 1, 1967 the Scully Mine was owned and operated by a joint venture in which Dofasco had a 15% interest, and the Arnaud pellet plant by a separate joint venture in which Dofasco had a 16.3% interest. As of that date, the two joint ventures were consolidated and Dofasco increased its overall interest, so that it became a 16.4% participant in the single joint venture, Wabush Mines, which owns and operates the entire project. The facilities themselves are in the course of an expansion which will increase Dofasco's annual share of pellet production from about 800,000 gross tons to about 1,000,000 gross tons. Operations are expected to begin at the increased rate by the middle of 1968.

These two mines will supply approximately 90% of our current ore requirements.

During 1967, ownership in the Itmann Coal Company, which supplies Dofasco with its current requirements for low volatile coking coal, was increased from 6% to 9%.

RESEARCH

The scope of our research activities has grown to new dimensions in 1967. Our constant probe for new and better ways of doing things now reaches into all aspects of steelmaking, from the iron ore mine to the finished product.

Further work on reduction processes to reclaim our waste oxide material indicates that a new method now being considered has more flexibility and lower plant cost.

Studies on pollution control were expanded, principally in the areas of establishing monitoring for the new recovery plants installed this year in the blast furnace, coke oven and steelmaking departments.

Investigation of the possible advantages of using gases to stir molten steel has given promising results in process and quality control.

An evaluation of tin-free steel processes was continued, with a view to customers' potential requirements.

New techniques, especially those using the recently acquired electron probe, were developed for analyzing steel defects and determining their cause.

Construction of an experimental steelmaking furnace was largely completed.

Plans for adding to the present Research building will provide space for the Development Engineering Department, as well as for the expansion of the Research laboratory.

EMPLOYEE AND PUBLIC RELATIONS

The loyal support of our employees is regarded as one of our most valuable assets contributing in a major way to the success of the Company. This has been built up over the years by the Company's policy of developing mutual respect and consideration. One of the practical applications of this principle is the Dofasco Profit Sharing whereby employees participate in each year's profits and are assured a good retirement income as well as cash for immediate needs.

A continuous effort is made to develop and maintain good lines of communication so that policies and objectives of the Company may be compatible with the well-being and aspirations of all employees.

Constant efforts are also being made to keep the general public informed of our various activities, as we realize that favourable public attitudes help to create a healthy climate in which to operate.

COMMUNITY ACTIVITIES — SUPPORTED BY COMPANY AND EMPLOYEES

Your management is aware that social consciousness and civic responsibility are important ingredients of business success, and consequently the Company participates in a wide variety of social, charitable and educational projects. Many of our employees serve, on a voluntary basis, on the boards of these agencies both on a local community level and at the national level. Our employees also support a number of these organizations by regular contributions which are made through their Charity Chest.

The Company not only encourages this activity but also gives its own financial support, including grants for higher education at the university level. The latter account for approximately 50% of the Company's donations for 1967.

OUTLOOK — ORDER BACKLOG HIGHER — LOW-PRICED IMPORTS A CONCERN

The outlook for 1968 for all of our products is moderately good. The order backlog for shipments of flat rolled steels to Canadian customers has increased significantly since the beginning of the year. Coupled with increased demand from the auto industry in the United States, this indicates support for a fairly high rate of operation during the current year.

The auto industry's increased activity in Canada, particularly the new frame and wheel plants, is giving added strength and breadth to the steel requirements from this sector. The impact of the Canada-United States Automotive Agreement is still difficult to weigh, since restructuring of the Canadian automotive industry is likely to continue throughout the next few years. Some of the difficulties have been worked out but others, notably in raw materials sources, have become apparent. Whether current negotiations between Canadian and U.S. officials are able to resolve these problems remains a question.

Reduced activity in the construction industry during 1967 reflected directly in Dofasco shipments, particularly of galvanized steels, although construction is of much less importance to the Company than is typical of the steel industry in general. With the continuing high cost of money, the lower rate of real growth in the Canadian economy, and the request of the United States Government to have U.S.-controlled subsidiaries defer expansion programs, industrial and commercial construction are not expected to increase steel consumption at least for the first six months of 1968. There are also problems in satisfying the recognized latent demand for housing, although the higher level of starts and completions expected in 1968 will be positive factors in steel demand.

The expansion of our silicon steel division is progressing well. This should help materially to increase our shipments of high grade electrical steel in the early part of 1969, and this will displace steel that is normally imported.

The tinplate outlook is steady. The demand for aerosol and soft drink containers is continuing to increase and these two items, along with the regular uses of tin mill products, should support this large-tonnage item throughout all of 1968.

The foundry outlook is only fair as this division is closely tied to the transportation industry, and the railroads are not ordering rolling stock in as large a volume as they did in the last two or three years. The outlook for National Steel Car is for a year of lower than normal activity.

Pre-painted steel is being produced by Baycoat at a good rate on a two-shift basis and the prospects for 1968 are bright, even in view of the poor construction outlook. We are concentrating development and promotion efforts on this specialized product with the expectation that new end uses will result.

A major concern of the steel industry in Canada is the impact of imported steel, dumped into Canada at prices below Canadian mill prices, and much below the prices charged by offshore mills to consumers in their home markets. Our studies indicate that Dofasco mill prices are comparable to, or lower than, those charged by world producers in their domestic markets. Since the Canadian agreement to change our anti-dumping legislation under the Kennedy Round, every steel-producing country appears to have been assessing Canada as a potential market. Your Company is working diligently to assist the Federal Government so that dump duty can be assessed on shipments currently arriving in Canada. At the same time, we have submitted proposals for effective legislation to be implemented in Ottawa to cover the change in the present regulations scheduled to become effective July 1st this year. Dofasco is a steel mill with the most modern equipment and with fine employee relations but, regardless of our efficiency, it is impossible to meet this unfair competition and still make a profit. If we were to adjust our selling prices, the offshore prices — being marginal business for these producers — would be dropped accordingly, so that, in effect, this is impossible competition. Many of our customers are working with us as they well realize what a great asset it is for them to have an efficient steel industry in Canada to meet and anticipate their requirements, both in time of over supply and, more particularly, during periods when steel is in short supply and sold by these same offshore producers at premium prices.

We shall continue to work with the Federal Government to overcome this difficult problem.

BOARD OF DIRECTORS

The Directors record with regret the death on August 3, 1967 of Mr. Morley F. Verity, who served the Board with distinction from September 16, 1939. Mr. Verity was elected to the Board following the death of his father, W. J. Verity, who was a director of the Company from July 16, 1917 to May 5, 1939. Thus the Verity family served as directors from 1917 to 1967 — an outstanding record.

After fifty-one years as a member of the Board, Mr. Arthur G. Wright resigned as a director on February 29, 1968. Starting with the Company in September 1913, Mr. Wright held the positions of Purchasing Agent, Secretary, Vice President, Executive Vice President, President and, since 1956 the office of Vice-Chairman — Finance. He saw the Company through its struggling years and was a very vital part of its tremendous growth. His contribution to Board deliberations and his wise counselling will be sorely missed. In appreciation of Mr. Wright's many years of service to and association with the Company, the Board of Directors unanimously voted to appoint him an Honorary Director.

During 1967, Mr. William C. Hassel and Mr. James L. Lewtas, Q.C. were elected to the Board.

Mr. Hassel joined Dofasco in 1935. After a time in our steelmaking division he became a roller, then Superintendent of Plant Services, Assistant Plant Superintendent, Plant Superintendent and, in 1962, Works Manager. In October 1964 he was appointed Vice President — Works Manager. Mr. Hassel is also a director of National Steel Car Corporation, Limited.

Mr. Lewtas is a partner in the Toronto legal firm of Campbell, Godfrey & Lewtas and has served as Dofasco's counsel for a number of years.

To fill the vacancy on the Board created by Mr. Wright's resignation, the Directors elected Mr. George H. Blumenauer. Mr. Blumenauer is Chairman of the Board and President of Otis Elevator Company, Limited and a director of other Canadian companies.

On behalf of the Board of Directors, we wish to express our appreciation to the management, staff and employees for their support throughout the year.

F H Sherman

President

Hamilton, Ontario
March 22, 1968.

DOFASCO

DOMINION FOUNDRIES AND STEEL, LIMITED

(INCORPORATED UNDER THE LAWS OF CANADA)

ASSETS

	1967	1966
CURRENT:		
Cash	$ 6,241	$ 730
Investment in short term securities at cost and accrued interest (approximating market value)	6,580	401
Accounts receivable	30,258	34,905
Inventories at the lower of cost and net realizable value (note 2)	63,827	74,305
Total current assets	106,906	110,341
FIXED (notes 3 and 4):		
Land, buildings and equipment at cost	480,353	435,935
Less accumulated depreciation and depletion	160,569	140,792
	319,784	295,143
OTHER:		
Special refundable tax	1,757	1,941
Investment in associated companies at cost	6,248	5,998
Deferred charges and other assets	1,815	2,290
	9,820	10,229
	$436,510	$415,713

On behalf of the Board:

T. F. Rahilly, Director

F. H. Sherman, Director

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1967

(with comparative figures at December 31, 1966 — in thousands of dollars)

LIABILITIES

	1967	1966
Current:		
Bank indebtedness		$ 5,500
Accounts payable and accrued charges	$ 20,271	24,759
Amounts payable for employees' profit sharing	3,663	5,201
Income and other taxes payable	738	1,316
Dividends payable	2,605	2,607
Current requirements on long term debt (note 5)	292	1,009
Total current liabilities	27,569	40,392
Long Term Debt (note 5)	86,881	79,436
Deferred Income Taxes	101,617	88,676
Shareholders' Equity:		
Capital stock (note 6) —		
500,000 preferred shares of the par value of $100 each authorized of which 243,400 (1966 — 250,000) 4¾% cumulative redeemable preferred shares, series A, are issued	24,340	25,000
25,000,000 common shares of no par value authorized of which 15,435,582 shares are issued (1966 — 15,397,003 shares)	50,906	50,212
Retained earnings (note 7)	145,197	131,997
	220,443	207,209
	$436,510	$415,713

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS FOR YEAR ENDED DECEMBER 31, 1967

(with comparative figures for 1966 — in thousands of dollars)

INCOME		1967		1966
Sales		$265,083		$271,086
Income from operations before the following deductions		$ 69,223		$ 71,922
Depreciation and depletion	20,465		17,504	
Allotted for employees' profit sharing	4,776		5,201	
Interest on long term debt (less discount on purchase of debentures)	4,924	30,165	3,569	26,274
Income from operations		39,058		45,648
Income from investments (including $341,000 from associated companies; $230,000 in 1966)		908		609
Income before taxes		39,966		46,257
Income taxes		15,400		21,700
Net income for year		$ 24,566		$ 24,557

RETAINED EARNINGS

Balance at beginning of year		$131,997		$117,865
Add:				
Net income for year		24,566		24,557
Discount on preferred shares purchased for cancellation		65		
		156,628		142,422
Deduct:				
Dividends declared —				
4¾% preferred shares, series A	1,167		1,188	
Common shares (60c per share)	9,249		9,237	
	10,416		10,425	
Discount on issue of 6½% debentures	1,015	11,431		10,425
Balance at end of year		$145,197		$131,997

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR YEAR ENDED DECEMBER 31, 1967

(with comparative figures for 1966 — in thousands of dollars)

SOURCE OF FUNDS	1967	1966
Operations —		
Net income for year	$ 24,566	$ 24,557
Charges not requiring cash outlays:		
Depreciation and depletion	20,465	17,504
Deferred income taxes	12,941	19,012
	57,972	61,073
Issue of 6½% debentures (less discount)	33,985	
Additional long term bank indebtedness		29,115
Common shares issued for cash	694	174
	92,651	90,362
APPLICATION OF FUNDS		
New facilities and equipment — manufacturing	22,748	56,906
— iron ore projects	22,421	24,772
Reduction in long term debt — bank indebtedness	25,327	
— debentures	2,228	2,123
Preferred shares purchased for cancellation (less discount)	595	
Dividends to shareholders	10,416	10,425
Other changes (net)	(472)	2,954
	83,263	97,180
INCREASE OR (REDUCTION) IN WORKING CAPITAL	9,388	(6,818)
WORKING CAPITAL AT BEGINNING OF YEAR	69,949	76,767
WORKING CAPITAL AT END OF YEAR	$ 79,337	$ 69,949

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1967

(1) BASIS OF CONSOLIDATION —

The consolidated financial statements for 1967 incorporate the assets, liabilities and earnings of the wholly-owned subsidiary, National Steel Car Corporation, Limited (called National). The comparative figures for 1966 incorporate the assets, liabilities and earnings of National and National's interest in the earnings of Canadian Trailmobile Limited, a partly-owned subsidiary of National, until its sale in September 1966.

Investments in associated companies (not consolidated) are carried at cost which approximates underlying equity.

(2) INVENTORIES —

Inventories consist of the following:	1967	1966
Materials and supplies	$32,520,000	$36,046,000
Work in process and finished goods	31,307,000	38,259,000
	$63,827,000	$74,305,000

(3) PARTICIPATION IN JOINT VENTURES —

The company has an undivided interest in two joint ventures — such interest being 16.4% of the Wabush project which includes the Scully Mine and a related pellet plant, and 90% in the Sherman Mine. The company's share of expenditures on these projects to December 31, 1967 aggregates $96,676,000 (1966 — $73,356,000). Joint venture assets are included in the accompanying balance sheet under the captions to which they relate — principally fixed assets and investment in associated companies.

(4) FIXED ASSETS —

These consist of the following:	Cost	Accumulated depreciation and depletion	Depreciated value
At December 31, 1967 —			
Manufacturing —			
Land	$ 7,436,000		$ 7,436,000
Equipment	320,295,000	$142,742,000	177,553,000
Buildings and other structures	64,361,000	14,722,000	49,639,000
	392,092,000	157,464,000	234,628,000
Iron ore projects —			
Wabush project (including pellet plant)	41,325,000	3,105,000	38,220,000
Sherman Mine	46,936,000		46,936,000
	88,261,000	3,105,000	85,156,000
	$480,353,000	$160,569,000	$319,784,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1967

(4) FIXED ASSETS — (continued)

	Cost	Accumulated depreciation and depletion	Depreciated value
At December 31, 1966 —			
Manufacturing —			
Land	$ 5,477,000		$ 5,477,000
Equipment	304,210,000	$126,479,000	177,731,000
Buildings and other structures	60,409,000	13,048,000	47,361,000
	370,096,000	139,527,000	230,569,000
Iron ore projects —			
Wabush project (including pellet plant)	37,525,000	1,265,000	36,260,000
Sherman Mine	28,314,000		28,314,000
	65,839,000	1,265,000	64,574,000
	$435,935,000	$140,792,000	$295,143,000

(5) LONG TERM DEBT —

	Originally authorized and issued	Outstanding December 31, 1967	Outstanding December 31, 1966
4½% debentures maturing March 15, 1969 (sinking fund of $300,000 per annum)	$ 6,000,000	$ 3,592,000	$ 3,809,000
4⅜% debentures maturing February 1, 1971 (sinking fund of $950,000 in 1968 and $1,250,000 per annum 1969 and 1970; 1968 requirements met in 1967)	15,000,000	7,750,000	9,500,000
6⅜% debentures maturing December 1, 1974 (sinking fund of $1,000,000 per annum; 1968 requirements met in 1967)	20,000,000	14,983,000	15,961,000
6½% debentures maturing May 15, 1987 (sinking fund of $1,190,000 per annum 1972-1986)	35,000,000	35,000,000	
6½% bank loan maturing June 1, 1969 ($12,500,000 U.S. funds)		13,453,000	13,453,000
Revolving bank credit of $35,000,000 U.S. funds repayable December 31, 1971 bearing interest at prevailing rates — indebtedness at December 31:			
1967 — $11,500,000 U.S.		12,395,000	
1966 — $35,000,000 U.S.			37,722,000
Outstanding at December 31		87,173,000	80,445,000
Less current requirements		292,000	1,009,000
		$86,881,000	$79,436,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1967

(6) CAPITAL STOCK —

(a) A plan was adopted in 1964 authorizing employee stock options extending to April 1974 and covering a maximum of 480,000 common shares. The number of common shares covered by each option varies with changes in the optionee's remuneration and therefore cannot be determined until the last year of its term. To December 31, 1967 options were granted to forty-seven employees (of whom eleven are officers); — at $18 per share to forty-three employees; at $21⅜ per share to three employees, and at $25 per share to one employee. During 1967, 38,579 common shares were issued under this plan for cash, 38,499 shares at $18 per share and 80 shares at $21⅜ per share. To December 31, 1967 a total of 82,386 shares has been issued.

(b) During the year 6,600 preferred shares, series A, of the par value of $100 each ($660,000) were purchased for cancellation for $595,000.

(c) The preferred shares are redeemable at the company's option at a premium of $5 to June 1, 1969 and reduced amounts thereafter.

(7) RETAINED EARNINGS —

In compliance with Section 61 of the Canada Corporations Act, retained earnings of $660,000 are designated as capital surplus resulting from the purchase of 6,600 preferred shares.

(8) COMMITMENTS —

The unexpended portion of capital expenditures authorized at December 31, 1967 amounted to approximately $25,000,000.

(9) RETIREMENT PLANS —

The companies have funded retirement plans covering substantially all of their employees. Costs charged against income in the year include amounts for current and past service.

The estimated unfunded past service costs at December 31, 1967 were $2,200,000 and these will be paid and charged against income over the next eight years.

The past service costs of National have been fully paid. The unamortized balance of $730,000 is being charged against income over the next two years.

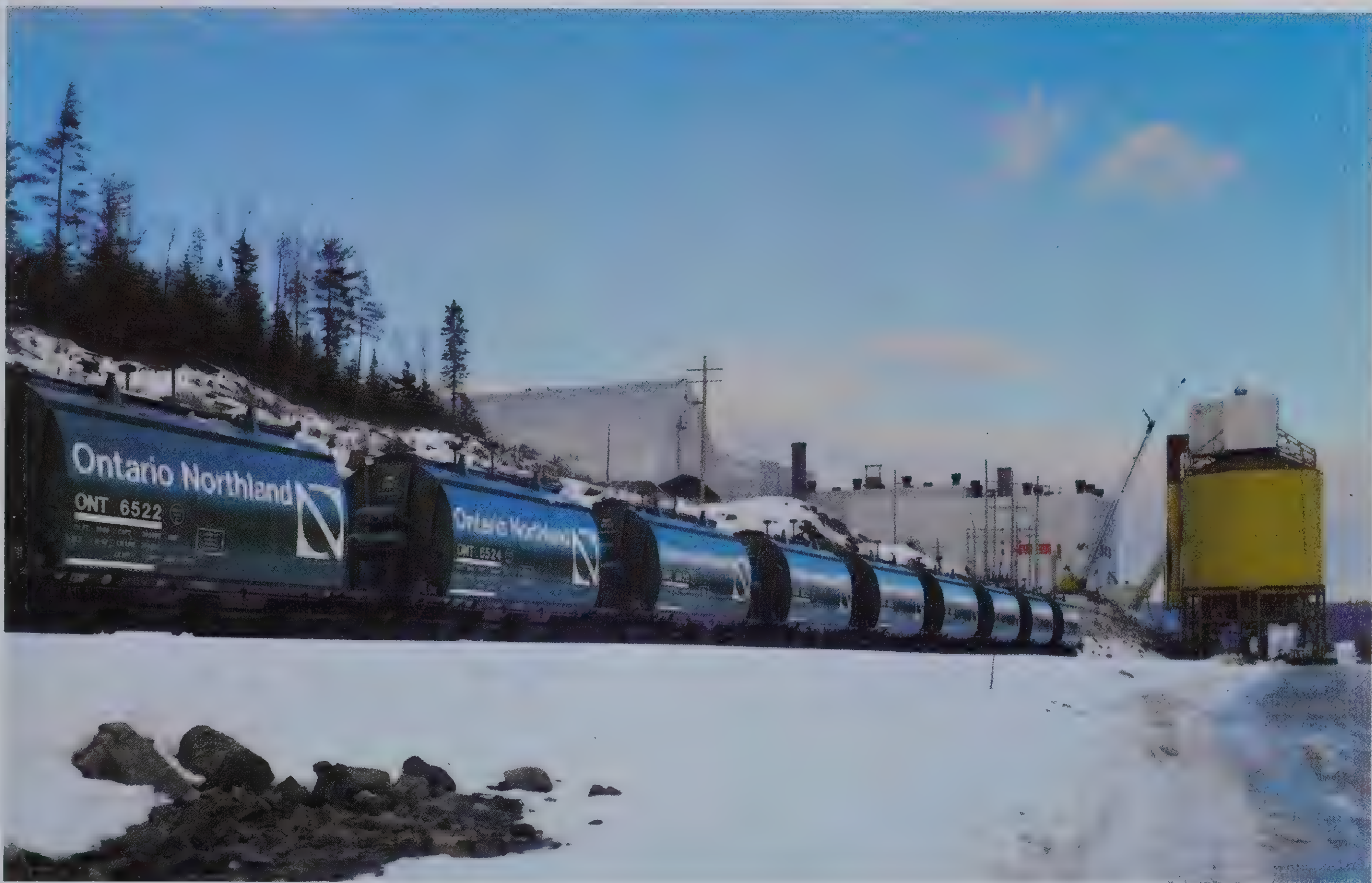
(10) STATUTORY INFORMATION —

(a) Canada Corporations Act:

The aggregate remuneration received by directors as directors, officers or employees amounted to $459,000 for the year.

(b) Ontario Securities Act:

The aggregate direct remuneration paid or payable by the company and its consolidated subsidiary to the directors and senior officers of the company amounted to $662,000 for the year.



These specially designed railway cars, built by National Steel Car for Canadian National Railways and Ontario Northland Railway, are waiting on site at the Sherman Mine in Temagami to carry the first shipment of pelletized iron ore to Dofasco's blast furnaces in Hamilton.

AUDITORS' REPORT

To the Shareholders of Dominion Foundries and Steel, Limited:

We have examined the consolidated balance sheet of Dominion Foundries and Steel, Limited as at December 31, 1967 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, Canada,
January 24, 1968.

CLARKSON, GORDON & CO.
Chartered Accountants.

DOMINION FOUNDRIES AND STEEL, LIMITED

	1967	1966	1965	1964
Production of ingots and castings — net tons	1,879	1,877	1,785	1,5
Sales	$265,083	$271,086	$268,347	$229,1
Net income	$ 24,566	$ 24,557	$ 25,609	$ 23,4
Net income per common share*	$ 1.52	$ 1.52	$ 1.61	$ 1.
Dividends declared —				
per common share*	$ 0.60	$ 0.60	$ 0.57½	$ 0.48
per preferred share*	$ 4.75	$ 4.75	$ 3.17	—
Working capital	$ 79,337	$ 69,949	$ 76,767	$ 52,7
Capital expenditures — plant	$ 22,748	$ 56,906	$ 38,244	$ 37,6
Investment in ore properties	$ 22,421	$ 24,772	$ 6,577	$ 15,9
Depreciation and depletion	$ 20,465	$ 17,504	$ 14,548	$ 13,1
Average number of employees*	8,100	8,445	8,625	7,5
Number of common shareholders*	19,696	19,805	18,818	15,9

Figures are on a consolidated basis for the year 1962 and subsequent years.

** Figures are in thousands except as indicated.*

TEN YEAR SUMMARY OF PRODUCTION AND FINANCIAL DATA

1963	1962	1961	1960	1959	1958
1,391	1,243	1,126	992	884	731
$177,314	$167,502	$133,385	$117,774	$114,945	$ 97,768
$ 19,741	$ 16,557	$ 14,094	$ 11,827	$ 13,437	$ 11,236
$ 1.29	$ 1.09	$ 0.98	$ 0.83	$ 0.94	$ 0.78
$ 0.41¼	$ 0.40	$ 0.36¼	$ 0.35	$ 0.31¼	$ 0.26¼
—	$ 1.50½	$ 4.50	$ 4.50	$ 4.50	$ 4.50
$ 38,368	$ 36,168	$ 34,148	$ 31,232	$ 43,419	$ 35,571
$ 18,114	$ 16,923	$ 12,049	$ 27,965	$ 28,548	$ 8,984
$ 7,775	$ 10,351	$ 4,951	—	—	—
$ 11,821	$ 10,956	$ 10,261	$ 9,131	$ 7,348	$ 6,278
5,942	5,892	4,543	4,517	4,200	3,827
13,060	13,381	11,206	11,377	11,114	10,267

DOFASCO PRODUCTS

Hot Rolled Sheet and Strip
Hot Rolled Plate
Skelp
Cold Rolled Sheet and Strip
Vitreous Enamelling Sheet
Silicon Electrical Sheet and Strip
Tin Mill Black Plate
Electrolytic Tin Plate
Galvanized Sheet and Strip
Pre-Painted Steel
Carbon, Alloy and Stainless Steel Castings
Pig Iron
Coke Oven By-Products

SUBSIDIARY

National Steel Car Corporation, Limited, Hamilton, Ontario

JOINT VENTURES

Sherman Mine, Temagami, Ontario
Wabush Mines, comprising:
  Scully Mine, Wabush, Newfoundland
  Arnaud Pellets, Pointe Noire, Quebec
Kimberley Ventures, Australia

ASSOCIATED COMPANIES

(With Percentage Ownership)

Baycoat Limited, Hamilton, Ontario	— 50%
Itmann Coal Company, West Virginia	— 9%
Arnaud Railway Company, Quebec	— 16.4%
Knoll Lake Minerals Limited, Newfoundland	— 9.5%
Northern Airport Limited, Newfoundland	— 8.2%
Northern Land Company Limited, Newfoundland	— 8.2%
Twin Falls Power Corporation, Limited, Newfoundland	— 3.6%
Wabush Lake Railway Company, Limited, Newfoundland	— 16.4%

These poultry buildings of Dofasco's new Pre-Coat prepainted galvanized steel typify the rapid acceptance of this new Dofasco product for farm, construction and durable goods manufacturing applications.

DOFASCO